

**REPORT OF EXAMINATION**

**OF**

**ALFA INSURANCE CORPORATION**

**MONTGOMERY, ALABAMA**

**as of  
December 31, 2016**

## TABLE OF CONTENTS

EXAMINER'S AFFIDAVIT.....	iii
SCOPE OF EXAMINATION.....	2
ORGANIZATION AND HISTORY .....	4
MANAGEMENT AND CONTROL .....	5
Stockholder .....	5
Board of Directors.....	5
Committees.....	6
<i>Audit Committee</i> .....	6
Officers.....	6
Conflict of Interest.....	7
CORPORATE RECORDS .....	8
HOLDING COMPANY & AFFILIATE MATTERS .....	8
Holding Company .....	8
Dividends to Stockholders.....	8
Management and Service Agreements.....	9
<i>Management and Operating Agreement</i> .....	9
<i>Monthly Billing Service Agreement</i> .....	9
<i>Consolidated Tax Allocation Agreement</i> .....	10
Organizational Chart.....	10
PENSION AND STOCK OWNERSHIP .....	12
SCHEDULE OF SPECIAL DEPOSITS.....	12
FINANCIAL CONDITION/GROWTH OF THE COMPANY.....	12
MARKET CONDUCT ACTIVITIES .....	12
Plan of Operation.....	12
Territory .....	13
Marketing and Sales .....	13
Underwriting and Rating .....	13
Producer Licensing .....	13
Claims Payment Practices .....	13
Complaint Handling .....	13
Privacy.....	14
REINSURANCE.....	14
Intercompany Pooling Agreement.....	14

<b>Reinsurance Assumed .....</b>	<b>15</b>
<b>Reinsurance Ceded.....</b>	<b>15</b>
<i>Intercompany Traditional Excess Catastrophe Reinsurance Contract .....</i>	<i>15</i>
<i>Intercompany Reinstatement Premium Protection Reinsurance Contract (RPP).....</i>	<i>16</i>
<i>Liability Excess of Loss Reinsurance Agreement .....</i>	<i>17</i>
<i>Property per Risk and Coded Excess Reinsurance Agreement.....</i>	<i>18</i>
<i>Limits on Reinsurance Loss .....</i>	<i>18</i>
<i>Umbrella Liability Reinsurance Agreement .....</i>	<i>18</i>
<b>ACCOUNTS AND RECORDS .....</b>	<b>19</b>
<b>FINANCIAL STATEMENT INDEX .....</b>	<b>20</b>
<b>NOTES TO FINANCIAL STATEMENTS .....</b>	<b>24</b>
<b>CONTINGENT LIABILITIES AND PENDING LITIGATION .....</b>	<b>24</b>
<b>SUBSEQUENT EVENTS.....</b>	<b>24</b>
<b>COMPLIANCE WITH PREVIOUS RECOMMENDATIONS .....</b>	<b>25</b>
<b>IMPORTANT POINTS, COMMENTS AND RECOMMENDATIONS .....</b>	<b>25</b>
<b>CONCLUSION .....</b>	<b>26</b>

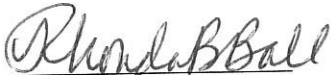
## EXAMINER'S AFFIDAVIT

### STATE OF ALABAMA COUNTY OF MONTGOMERY

Rhonda B. Ball, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of Alfa Insurance Corporation.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Alfa Insurance Corporation was performed in a manner consistent with the standards and procedures required by the State of Alabama.


The affiant says nothing further.



Rhonda B. Ball  
Examiner-in-Charge

Subscribed and sworn before me by Rhonda B. Ball on this 2<sup>nd</sup> day of March 2018.

(SEAL)



(Signature of Notary Public)

My commission expires 7/1/2020





KAY IVEY  
GOVERNOR

JIM L. RIDLING  
COMMISSIONER

STATE OF ALABAMA  
Department of Insurance  
201 Monroe Street, Suite 502  
Post Office Box 303351  
Montgomery, Alabama 36130-3351  
*Telephone: (334) 269-3550*  
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DEPUTY COMMISSIONER  
CHARLES M. ANGELL

CHIEF OF STAFF  
MARK FOWLER

CHIEF EXAMINER  
RICHARD L. FORD

STATE FIRE MARSHAL  
SCOTT F. PILGREEN

GENERAL COUNSEL  
REYN NORMAN

March 2, 2018

Jim L. Ridling, Commissioner  
State of Alabama  
Department of Insurance  
201 Monroe Street, Suite 502  
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

**Alfa Insurance Corporation  
Montgomery, Alabama**

at its home office at 2108 East South Boulevard, Montgomery, Alabama 36116, as of December 31, 2016. The report of examination is submitted herewith.

Where the description "Company" or "AIC" appears herein, without qualification, it will be understood to indicate Alfa Insurance Corporation.

## SCOPE OF EXAMINATION

We have performed our multi-state examination of Alfa Insurance Corporation (AIC). The last examination covered the period of January 1, 2007 through December 31, 2011. This examination covers the period of January 1, 2012 through December 31, 2016.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. The examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

The examination was conducted as a coordinated examination with the following affiliated companies: Alfa Mutual Insurance Company (AMIC) of Alabama, Alfa Mutual Fire Insurance Company (AMFIC) of Alabama, Alfa Mutual General Insurance Company (AMGIC) of Alabama, Alfa General Insurance Corporation (AGIC) of Alabama, Alfa Life Insurance Corporation (ALIC) of Alabama, Alfa Specialty Insurance Corporation (ASIC) of Virginia, Alfa Vision Insurance Corporation (AVIC) of Virginia and Alfa Alliance Insurance Corporation (AAIC) of Virginia. These companies were coordinated with the Company's five-year examination with Alabama being the lead state. During planning, examiners from Alabama and Virginia interviewed the members of management and reviewed lines of business and systems utilized to determine what areas would be coordinated. The key activities to be coordinated fully with the two states were Capital and Surplus, Investments, Related Party, Reinsurance Assuming and Reinsurance Ceding. The other key activities determined to be examined were Reserves/Claims Handling and Underwriting/Premiums. In addition, the AIC examination covered those issues identified during planning deemed immaterial to the coordinated examination but were material to the AIC examination. Where deemed appropriate, transactions, activities and similar items subsequent to 2016 were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the *Code of Alabama 1975*, as amended, the Alabama Insurance Department regulations, bulletins and directives and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices. All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles. The

examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was identified, the impact of such adjustment was documented separately following the Company's financial statements.

The Company's 2012 through 2016 annual statements were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information systems (IS) was conducted concurrently with the financial examinations of all the companies. All the Alabama property and casualty companies utilize the same systems, except ALIC, AVIC, AAIC and ASIC, which have their own business operations for policyholders and claims. The IS examination included a review of management and organizational controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls for all companies in the coordinated examination.

Alabama performed a market conduct examination concurrently with the financial examination. The examination included reviews of the Company's territory, plan of operation, claims, policyholder complaints, marketing and sales, producers' licensing, policy forms and underwriting, and privacy standards. See "MARKET CONDUCT ACTIVITIES" on page 12 for further discussion of the Company's market conduct examination.

The Company maintains an Audit Services (AudSvc) Department, which is charged with performing the internal audit function for all companies. The AudSvc Department is subject to oversight by the Audit Committee which is comprised of all outside directors. Reports generated by the AudSvc Department were made available to the examiners and were used in the examination as deemed appropriate. Risk Management and Compliance works with each business unit to document the process workflow, evaluate risks to the process, identify controls to mitigate those risks, and periodically test the effectiveness of those controls as required by the NAIC Model Audit Rule. The examiners reviewed the controls and procedures tested and requested the workpapers for specific ones which had been identified as significant to the key activities being examined. The workpapers were provided, were retested and were utilized where deemed appropriate.

PricewaterhouseCoopers, LLP was the Company's certified public accountant (PwC) for all years under examination. PwC's workpapers were reviewed and were used in the examination as deemed appropriate by the examiners.

A signed certificate of representation for AIC was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2016.

This examination report includes significant findings of fact, as mentioned in the *Code of Alabama 1975*, as amended, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

## **ORGANIZATION AND HISTORY**

The Company was incorporated on March 11, 1955, as a mutual insurance company under the name American Service Mutual Insurance Company.

In December 1977, Alabama Farm Bureau Mutual Casualty Insurance Company (currently Alfa Mutual Insurance Company (AMIC)) obtained control of the Company pursuant to an agreement whereby AMIC acquired the Company's outstanding surplus notes, all directors of the Company resigned, and new directors designated by AMIC were elected.

Effective August 31, 1982, the Company was converted to a stock insurance company. The initial capitalization was effected by the sale of 500,000 shares of its common stock to Federated Guaranty Life Insurance Company (currently Alfa Life Insurance Corporation (ALIC)). The name of the Company was changed to Federated Guaranty Insurance Company.

On January 4, 1983, the holding company, now named Alfa Corporation (AC), was incorporated in Delaware under the name, Federated Guaranty Corporation. At that time, the stock of the Company as well as that of its parent, ALIC, was contributed to AC.

Effective May 1, 1987, AFBF withdrew as a franchise member from the national Farm Bureau Federation and changed its name to Alabama Farmers Federation. The name of the Company was changed to Alfa Insurance Corporation.

During the interim from the Company's organization through 1987, the Company became affiliated with four other property and casualty insurers. They were AMIC, AMGIC, AGIC and AMFIC. In 1987, an intercompany pooling agreement was formed between these five affiliates. The terms of the agreement provided that the

affiliates cede all their direct business, reinsurance assumed business and reinsurance ceded business to AMIC. The pooled business was then retroceded according to percentages provided in the pooling agreement. In 1989, an intercompany pooling committee, representing the boards of directors of the reinsurance pool participants, was established to review and approve any changes to the pooling agreement. In 2001, ASIC became a participant in the reinsurance pooling agreement. In 2005, AVIC became a participant in the agreement, and in 2007, AAIC became a participant. Effective April 16, 2008, the pooling agreement was amended to change the pool participation percentages.

AC, a Securities and Exchange Commission (SEC) registrant, was affiliated with AMIC, AMFIC and AMGIC (collectively the Mutual Group). The Mutual Group owned 54.8% of AC's common stock, their largest single investment. On April 15, 2008, the Mutual Group completed a merger transaction in which they acquired AC's common shares not previously owned by them. Each of these shares was cancelled and converted into the right to receive \$22 in cash, without interest. As a result of the merger, AC became a wholly-owned subsidiary of AMIC (65%) and AMFIC (35%). Also as a result of the merger, AC's common stock ceased to trade on the NASDAQ Global Select Market as of the close of trading on April 15, 2008, and the registration of AC's common stock under the Securities Exchange Act of 1934, as amended, was terminated.

At December 31, 2016, the Company had 3,000,000 shares of \$1 par value common stock authorized and 1,500,000 shares issued and outstanding. The Company did not have any preferred stock authorized, issued or outstanding. The Company's Gross paid-in and contributed surplus totaled \$32,447,957.

## **MANAGEMENT AND CONTROL**

### **Stockholder**

The Company is a stock corporation with ownership vested in its sole stockholder. At December 31, 2016, 100% of the issued and outstanding common stock was owned by AC. The controlling interest in AC is held by AMIC (65%) and AMFIC (35%).

### **Board of Directors**

Directors are elected at the annual stockholder's meeting and serve until their successors are elected and qualified which is in accordance with the Company's Bylaws. The following directors were serving at December 31, 2016:

Names and Residence

James Louis Parnell  
Stanton, Alabama

Angela Long Bradwell  
Montgomery, Alabama

Stephen Goddard Rutledge  
Montgomery, Alabama

Principal Occupation

Chairman of the Board, President and  
Chief Executive Officer  
Alfa Mutual Insurance Company

Executive Vice President, General Counsel and  
Secretary  
Alfa Mutual Insurance Company

Executive Vice President, Operations and  
Treasurer  
Alfa Mutual Insurance Company

Committees*Audit Committee*

The Company appointed the Audit Committee of AMIC as the Audit Committee for the Company. The following individuals were serving as of December 31, 2016:

Curtis Dean Wysner, Chairman  
Stephen Leonard Dunn  
Jacob Calhoun Harper  
George Ray Jeffcoat  
Ronald Gray Vaughn, II

Officers

The Company's Bylaws provide that its principal officers shall be a Chairman of the Board, President, one or more Vice Presidents, a Secretary, a Treasurer. These officers shall be elected for one year by the Board of Directors at its annual meeting after the annual meeting of stockholder. The following officers were elected by the Board of Directors and were serving as of December 31, 2016:

Officer

James Louis Parnell

Angela Long Bradwell

Stephen Goddard Rutledge<sup>#</sup>

Title

Chairman of the Board, President and  
Chief Executive Officer

Executive Vice President, General Counsel and  
Secretary

Executive Vice President, Operations and  
Treasurer

The following officers were appointed and were serving as of December 31, 2016:



Officer

Alvin Howard Dees, Jr.  
 William Scott Forrest  
 William Thomas Coshatt, Jr.<sup>#</sup>  
 Mark Andrew Evans<sup>#</sup>  
 Carol Lynn Golsan<sup>#</sup>  
 John Delane Hemmings, Jr.<sup>#</sup>  
 Bryan Daniel Hubbard  
 Darrell Lee McNeal<sup>#</sup>  
 Robert Ernest Robison

Michael Wayne Rowell  
 Russell John Sinco\*  
 Susan Renee Adcock  
 Elizabeth Vail Chancey<sup>#</sup>  
 Lisa Melton Farmer  
 Tammy Renee Hackett  
 Michael Lynn Lovelady  
 Donald Eugene Manis  
 Jeffrey Holland Nickles  
 Julie Meadows Parish<sup>#</sup>  
 Rhonda Welch Sikes<sup>#</sup>  
 Douglas Wade Simpson<sup>#</sup>  
 Craig Miles Venable<sup>#</sup>

Title

Executive Vice President, Marketing  
 Executive Vice President, Administration  
 Senior Vice President, P & C Underwriting  
 Senior Vice President, Mississippi Sales  
 Senior Vice President, Marketing Services  
 Senior Vice President, Investments  
 Senior Vice President, Claims  
 Senior Vice President, Georgia Sales  
 Senior Vice President, Life Operations and  
 Policy Administration  
 Senior Vice President, Chief Information Officer  
 Senior Vice President, Chief Financial Officer  
 Vice President, Marketing Resources  
 Vice President, P & C Underwriting  
 Vice President, Risk Management & Compliance  
 Vice President, Life & Investments Controller  
 Vice President, Claims  
 Vice President, P & C Actuary  
 Vice President, Tax Accounting & Shared Services  
 Vice President, P & C Controller  
 Vice President, Corporate Services and Reporting  
 Vice President, Claims  
 Vice President, Audit Services

\*Resigned in 2017

<sup>#</sup>See Subsequent Events, page 24

Conflict of Interest

The Company has a written policy, "Principles of Business Conduct," for the disclosure of conflicts between the Company's interests and personal interests of its officers and employees. The process is performed on a biennial basis and is monitored by the Risk Management and Compliance Department. There is not a written policy governing the Board of Directors' conflict of interest disclosures; however, Company procedures required the Directors to sign a written conflict of interest statement (statement) on an annual basis. These statements are maintained by the Company's legal department. The statements on file were reviewed and were determined to be complete and current. No material conflicts or exceptions were noted in the statements of the officers, employees or Board of Directors for the period under examination.

## **CORPORATE RECORDS**

The Articles of Incorporation (Articles) and Bylaws, as amended, were inspected and found to provide for the operation of the Company in accordance with usual corporate practices and applicable statutes and regulations. During the period under examination, the Company did not amend the Articles; however, on December 31, 2012, the Bylaws - Article 3, Section 1, was amended to reflect the change in the number of directors from four to three.

Minutes of the Annual Membership meetings, Board of Directors and Board committees from January 1, 2012 to December 31, 2016 were reviewed. The minutes appeared to be complete with regard to recorded actions taken on matters before the respective bodies for deliberation and action.

## **HOLDING COMPANY & AFFILIATE MATTERS**

### **Holding Company**

The Company is subject to the Alabama Insurance Holding Company Regulatory Act, as defined in ALA. CODE § 27-29-1 (1975), as amended. In connection therewith, the Company is registered with the Alabama Department of Insurance (ALDOI) as joint registrant of an Insurance Holding Company System.

Appropriate filings required under the Holding Company Act were made from time to time by the Company. The examination did not determine that any required disclosures were excluded from the Company's filings.

### **Dividends to Stockholders**

The following dividends were issued to the sole stockholder during the examination period:

<u>Year</u>	<u>Amount</u>
2012	\$ 0
2013	\$ 6,000,000
2014	\$ 5,900,000
2015	\$ 5,500,000
2016	\$ 4,900,000



## **Management and Service Agreements**

### *Management and Operating Agreement*

Alfa Mutual Insurance Company (AMIC) has a Management and Operating Agreement, (the M&O Agreement), under which AMIC provides substantially all of the facilities, management, and other operational services for Alfa Mutual Fire Insurance Company (AMFIC), Alfa Mutual General Insurance Company (AMGIC), Alfa Life Insurance Corporation (ALIC), Alfa Insurance Corporation (AIC), Alfa General Insurance Corporation (AGIC), Alfa Specialty Insurance Corporation (ASIC), Alfa Alliance Insurance Corporation (AAIC), Alfa Vision Insurance Corporation (AVIC), Alfa Financial Corporation (AFC), Alfa Corporation (AC), and certain non-insurance subsidiaries and affiliates.

AMIC pays the employees for services rendered and is reimbursed on an allocated percentage basis. Each company may employ personnel in its own name, upon written consent of AMIC. The company will be solely responsible for the employment, supervision, payment and discharge of all such personnel.

Each company will pay and/or reimburse AMIC the percentages of expense incurred by AMIC, based on special expense allocation studies. The expense allocation rates are variable and are based upon business activity metrics that differ between companies, depending upon the type of business, marketing and distribution method, location, etc. The companies understand and agree that the metrics may change from time to time, and not every company will have the same metrics applied to its expense allocation. All books of accounts, documents and records relating to such expenses will at all times be open to inspection by the company to which the records are applicable.

The term of the M&O Agreement was for five years from January 1, 2010 to December 31, 2015, and automatically renews for additional periods of one year beginning January 1, 2016, unless terminated. AMIC and any company may terminate its participation by giving written notice to all parties not less than thirty days after delivery or mailing. In the event one or more companies terminate its participation, AMIC would reallocate the expense allocations on an equitable basis.

### *Monthly Billing Service Agreement*

Alfa Financial Corporation entered into a Monthly Billing Service Agreement (Agreement) January 1, 2005 with AMIC, AMGIC, AMFIC, AIC and AGIC ("Insurers") whereby AFC grants a perpetual nontransferable license to use its software to process monthly billing payment methods for the Insurers' insureds. The

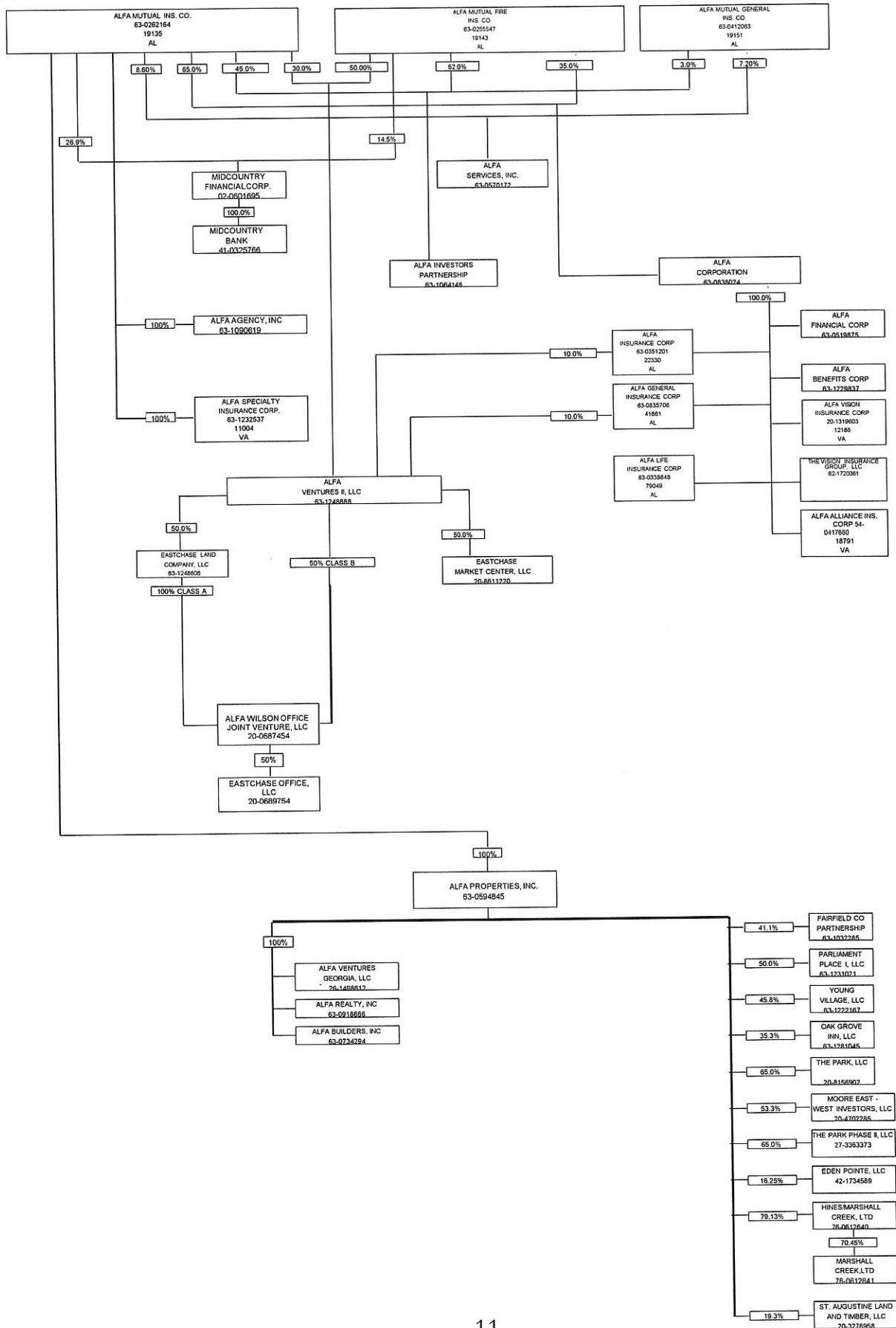
Insurers will pay AFC a non-refundable processing fee on a monthly basis. AFC is obligated to provide the software to the Insurers without further charge or obligation and to provide any and all updates to the software. The Agreement may be cancelled by any party by giving to the other parties' notice of cancellation in writing thirty days prior to the date cancellation is to become effective.

#### *Consolidated Tax Allocation Agreement*

Alfa Corporation (Parent) is party to a Tax Allocation Agreement (Agreement) dated April 11, 2014 with AIC, AGIC, ALIC, AVIC, AAIC, and various non-insurance subsidiaries. The Parent would file a U.S. consolidated income tax return for each taxable period. Each Subsidiary would execute and file consents, elections and other document required or appropriate for the proper filing of the return. The Agreement allocates consolidated tax liability among the members and provides for allocation and payment of any refund. If the agreement is terminated, it would continue in effect with respect to any payment or refunds due for all taxable periods prior to termination.

#### **Organizational Chart**

The following chart represents the corporate affiliations of the Company as of December 31, 2016:



## PENSION AND STOCK OWNERSHIP

The Company had no employees; therefore, it had no formal employee or agent welfare program. Its operations were conducted by the personnel of AMIC under the terms of the Management and Operating Agreement. See page 9.

## SCHEDULE OF SPECIAL DEPOSITS

The Company had the following special deposits at December 31, 2016, as required or permitted by law:

<u>States, etc.</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Alabama	\$ 307,842	\$ 345,646
Georgia	<u>86,682</u>	<u>108,866</u>
<b>Total</b>	<b><u>\$ 394,524</u></b>	<b><u>\$ 454,512</u></b>

## FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	<u>Premiums Earned</u>
2016	\$ 95,262,159	\$ 48,414,529	\$ 46,847,630	\$ 36,000,918
2015	\$ 94,667,693	\$ 44,861,332	\$ 49,806,361	\$ 33,906,282
2014	\$ 97,212,591	\$ 41,879,670	\$ 55,332,920	\$ 33,335,380
2013	\$ 98,314,557	\$ 39,158,468	\$ 59,156,089	\$ 32,188,201
2012	\$ 97,560,943	\$ 37,256,005	\$ 60,304,938	\$ 31,342,285

## MARKET CONDUCT ACTIVITIES

### Plan of Operation

The Company did not write business in Alabama during the examination period. All of the Company's business was produced in Georgia and Mississippi. The Company marketed its products through captive producers. At December 31, 2016, the Company had 156 service centers in Georgia and Mississippi. The majority of the Company's direct premiums were from private passenger automobile, homeowner, commercial lines and fire lines of business.

### **Territory**

At December 31, 2016, the Company was licensed to transact property and casualty business in the following states: Alabama, Georgia and Mississippi. The Certificates of Authority from the respective jurisdictions were inspected and were found to be in effect at December 31, 2016.

### **Marketing and Sales**

The Company's advertising materials were reviewed for the examination period. The examiners' review did not reveal any advertisements that misrepresented policy benefits, made unfair or incomplete comparisons with other policies, or made false, deceptive or misleading statements or representations.

The Company's website <https://www.alfainsurance.com> was reviewed and was found to include the following links: Auto, Life, Home, and Membership. Also, the site provided links to finding an agent, getting a quote, customer care, reporting a claim and making a payment.

Per Company management, producers are instructed not to create their own material, if they wish to receive co-op reimbursement. Any material created by the producer has to be reviewed by the Vice President of Integrated Marketing, and Legal must review the material and approve or deny the request.

### **Underwriting and Rating**

The Company did not write business in Alabama during the examination period; therefore, no underwriting and rating procedures were performed for this Company.

### **Producer Licensing**

The Company did not write business in Alabama during the examination period; therefore, no review was conducted for compliance for Producer Licensing.

### **Claims Payment Practices**

The Company did not write business in Alabama during the examination period; therefore, no claims were reviewed.

### **Complaint Handling**

The Company did not write business in Alabama during the examination period; therefore, no complaints were reviewed.

## **Privacy**

The Company's Privacy Notice disclosed the types of information collected, the way the information is used, the manner in which information is collected and how the information is protected. The Privacy Notice also specifically stated the customers' rights, and the Company does not disclose any information to any nonaffiliated third parties unless permitted to do so by law. It was determined the Company's policies, practices and procedures regarding the protection and disclosure of non-public personal information of consumers and former customers were in compliance with ALA. ADMIN. CODE 482-1-122 (2001).

## **REINSURANCE**

### **Intercompany Pooling Agreement**

The amended and restated intercompany pooling agreement, effective January 1, 2009, is between Alfa Mutual Insurance Company ("AMIC" or the "Company") and the following entities (hereinafter referred to as the "Associates"):

- Alfa Mutual Fire Insurance Company (AMFIC)
- Alfa Mutual General Insurance Company (AMGIC)
- Alfa Insurance Corporation (AIC)
- Alfa General Insurance Corporation (AGIC)
- Alfa Specialty Insurance Corporation (ASIC)
- Alfa Vision Insurance Corporation (AVIC)
- Alfa Alliance Insurance Corporation (AAIC)

The purpose of this Pooling Agreement is to increase the solvency protection for policyholders and shareholders by increasing available surplus to draw on in the event of a large catastrophe; to increase geographic diversification; to increase access to external capital markets; and, to spread and stabilize the writings of each participating company by sharing underwriting operations.

Under this pooling agreement all Associates cede 100% of its books of business (premiums) and net liabilities to the Company. In turn, the Company cedes to each Associate its proportionate share of premiums on AMIC's book of business and its proportionate share of the net liability on all insurance written by AMIC, including the net liability of business assumed.

The following pooling percentages were in effect at December 31, 2016:

	Pool 4	Pool 5	Pool 6	Pool 7
Name of Insurer	Loss Dates 1/1/01- 12/13/04	Loss Dates 1/1/05-12/31/06	Loss Dates 1/1/07-12/31/07	Loss Dates 1/1/08- current
AMIC (Lead Company)	18%	18%	18%	52%
AMFIC	13%	13%	13%	30%
AMGIC	3%	3%	3%	4%
AIC	32.5%	30%	29%	3%
AGIC	32.5%	30%	29%	4%
ASIC	1%	1%	1%	2%
AVIC	0%	5%	5%	4%
AAIC	0%	0%	2%	1%

All net premiums, losses and expenses on all insurance written by the Company and assumed under this agreement are prorated between the Associates based on each participant's proportionate share specified in the agreement. Each Associate retains and is liable for outstanding net losses (including IBNR liability), for outstanding net expenses, and salvage and subrogation related to losses incurred.

### **Reinsurance Assumed**

Other than the intercompany pooling listed above, the Company had no additional reinsurance assumed at December 31, 2016.

According to the Company's Schedule F- Part 1, the total assumed premium as of December 31, 2016 from Intercompany Pooling was \$36,881,000.

### **Reinsurance Ceded**

#### *Intercompany Traditional Excess Catastrophe Reinsurance Contract*

This intercompany contract is effective June 1, 2016 between AGIC, AIC, AMIC, AMGIC and AMFIC, ("Alfa P&C Group" or the "Reinsured") and AMFIC ("Reinsurer").

This reinsurance agreement has an allocation component that mirrors the terms of external catastrophe reinsurance contracts issued to AMFIC (traditional, multi-year, reinstatement premium protection). AMFIC secures outside reinsurance for the pool, and then executes an internal reinsurance agreement that mirrors the outside reinsurance agreement. AMFIC acts essentially as a pass through entity. The purpose of this agreement is to fairly divide the costs of reinsurance among the participants in the intercompany pooling arrangement.



This contract defines participation percentages between AGIC, AIC, AMIC, AMGIC and AMFIC. Under this agreement, the ceding companies retain and are liable for the first amount of ultimate net loss for each excess layer. Premiums are allocated to each Alfa business unit based on premium exposure. The following schedule defines the participation rates by company, limits, and retention:

	Traditional Excess Catastrophe June 1, 2016				Traditional Multi-Year Excess Catastrophe June 1, 2016	
	Underlying Excess	First Excess	Second Excess	Third Excess	First Excess	Second Excess
Company's Retention	\$75,000,000	\$100,000,000	\$200,000,000	\$550,000,000	\$100,000,000	\$200,000,000
Intercompany Placement %	100%	100%	100%	100%	100%	100%
Participation Rate						
AMIC	81.60%	81.60%	81.60%	81.60%	81.60%	81.60%
AMGIC	5.07%	5.07%	5.07%	5.07%	5.07%	5.07%
AMFIC	2.87%	2.87%	2.87%	2.87%	2.87%	2.87%
AIC	7.45%	7.45%	7.45%	7.45%	7.45%	7.45%
AGIC	1.66%	1.66%	1.66%	1.66%	1.66%	1.66%
Reinsurer's Per Occurrence Limit	\$25,000,000	\$100,000,000	\$400,000,000	\$50,000,000	\$100,000,000	\$400,000,000
Reinsurer's Term Limit	\$50,000,000	\$200,000,000	\$800,000,000	\$100,000,000	\$200,000,000	\$800,000,000

The outside reinsurance agreement that is mirrored by this internal agreement reinsures the participating companies for catastrophe losses exceeding the first retention level of \$75 million. Losses below the retention level are shared on a percentage basis by Alfa's Intercompany Pooling Arrangement. All business is ceded to AMIC and then retroceded according to the participation percentages. There is also an *Intercompany Reinsurance Premium Protection Reinsurance Contract (RPP)* that is associated as part of this reinsurance agreement immediately following.

*Intercompany Reinstatement Premium Protection Reinsurance Contract (RPP)*

This contract is effective June 1, 2016, between AMFIC as the reinsurer ("Reinsurer") and AGIC, AIC, AMIC, AMGIC and AMFIC as ceding companies (the "Companies").

By this Contract, the Reinsurer agrees to indemnify the Companies for 100% of any reinstatement premium, which the Companies pay or becomes liable to pay as a result



of losses arising out of loss occurrences commencing during the term of this Contract under certain provisions of the third party contracts between AMFIC and subscribing reinsurers. This Contract follows the terms, conditions, exclusions, definitions, warranties and settlements of the Companies under the third party Original Contracts.

The following schedule defines the participation rates by company limits and retention:

	Traditional Excess Catastrophe Reinsurance Contract June 1, 2016	Multi-Year Traditional Excess Catastrophe Reinsurance Contract June 1, 2016	Multi-Year Traditional Excess Catastrophe Reinsurance Contract June 1, 2015
	First Excess	First Excess	First Excess
Original Contract Retention	\$100,000,000	\$100,000,000	\$100,000,000
Original Contract Reinsurer's Per Occurrence Limit	\$100,000,000	\$100,000,000	\$100,000,000
Reinsurer's Term Limit	\$200,000,000	\$200,000,000	\$200,000,000

*Liability Excess of Loss Reinsurance Agreement*

This agreement is effective April 1, 2016 between AMIC, AMFIC, AMGIC, AGIC and AIC as ceding companies (the "Reinsured") and American Agricultural Insurance Company as reinsurer ("American").

American agrees to reimburse the Reinsured, on an excess of loss basis for its share of the amount of Ultimate Net Loss that the Reinsured has paid as a result of any one loss.

Maximum Policy Limits:

- Per Occurrence BI/PD: \$1,500,000
- Minimum Premium: \$75,000

### *Property per Risk and Coded Excess Reinsurance Agreement*

This agreement is effective April 1, 2016 between AMIC, AMFIC, AMGIC, AGIC and AIC as ceding companies (the "Reinsured") and American Agricultural Insurance Company as reinsurer ("American").

American agrees to reimburse the Reinsured, on an excess of loss basis for its share of each Loss, to each Risk, as a result of each Occurrence arising under certain classified lines of business.

### *Limits on Reinsurance Loss*

There are two layers of coverage provided under this Agreement, Layer 1 - Property per Risk and Layer 2 - Coded Excess. As respects to each Layer, the Reinsured shall retain the amount of each Loss, to each Risk, as a result of each Occurrence, that does not exceed the Layer Retention. American shall then be liable for the amount of Loss, to each Risk, as a result of each Occurrence, that exceeds the Retention multiplied by the Layer American Share.

	Layer 1 Property per Risk	Layer 2 Coded Excess
Retention	\$ 750,000	\$ 2,500,000
Occurrence Limit	\$3,500,000	\$15,000,000
Layer American Share	50.0%	100.0%
Layer Limit of Liability	\$1,750,000	\$ 7,500,000
Risk Limit	\$2,500,000	\$10,000,000

### *Umbrella Liability Reinsurance Agreement*

This agreement is effective September 1, 2016 between AMIC, AMFIC, AMGIC, AGIC and AIC as ceding companies (the "Reinsured"), and American Agricultural Insurance Company as reinsurer ("American").

American agrees to reimburse the Reinsured on a quota share basis for American's Reinsurance Percentage (determined by layer and Class Group) of the amount of Ultimate Net Loss that the Reinsured has paid as a result of any one Loss Event involving any new or renewal Umbrella Policies issued by the Reinsured to a qualified risk.

American's maximum liability, including its aggregate limit under this Agreement, shall correspond to the Reinsurance Percentage of Treaty Capacity for each Policy Limit Layer included under any Class Group. Aggregate limits must be included in all Commercial Umbrella Policies subject to this Agreement.

## **ACCOUNTS AND RECORDS**

The Company utilizes a centralized processing environment for the majority of its daily business requirements. This environment includes mainframe operations, server clusters, as well as midrange (IBM AS400) computers at AVIC & AAIC. The Company operates a web site that has limited commerce functionality. Overall, the Company has a highly complex Information Technology environment.

## **FINANCIAL STATEMENT INDEX**

The following financial statements are based on the statutory financial statements filed by the Company with the Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2016. The accompanying comments on the financial statement reflect any examination adjustments to the amount reported in the annual statement and should be an integral part of the financial statements.

Statement of Assets.....	21
Statement of Liabilities, Surplus and Other Funds .....	22
Statement of Income and Capital and Surplus Account .....	23

**Alfa Insurance Corporation**  
**Statement of Assets**  
**For the Year Ended December 31, 2016**

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net admitted <u>Assets</u>
Bonds	\$ 42,671,710	\$ -	\$ 42,671,710
Stocks: Preferred stocks	1,260,900	-	1,260,900
Stocks: Common stocks	6,335,683	-	6,335,683
Cash, cash equivalents and short-term investments	15,982,177	-	15,982,177
Other invested assets	<u>6,952,372</u>	<u>130,016</u>	<u>6,822,356</u>
<b>Subtotals, cash and invested assets</b>	<b>\$ 73,202,842</b>	<b>\$ 130,016</b>	<b>\$ 73,072,826</b>
Investment income due and accrued	518,813	-	518,813
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	3,979,790	29,351	3,950,439
Deferred premiums, agents' balances and installments booked but deferred and not yet due	6,063,449	333	6,063,116
Reinsurance:			
Amounts recoverable from reinsurers	9,052,765	-	9,052,765
Current federal and foreign income tax recoverable and interest thereon	274,617	-	274,617
Net deferred tax asset	3,271,487	1,173,904	2,097,583
Electronic data processing equipment and software	3,304,094	3,304,094	-
Furniture and equipment, including health care delivery assets	6,033	6,033	-
Receivables from parent, subsidiaries and affiliates	232,000	-	232,000
Health care and other amounts receivable	285	285	-
Aggregate write-ins for other-than-invested assets	<u>32,545</u>	<u>32,545</u>	<u>0</u>
<b>TOTAL</b>	<b><u>\$ 99,938,720</u></b>	<b><u>\$ 4,676,561</u></b>	<b><u>\$ 95,262,159</u></b>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

**Alfa Insurance Corporation**  
**Statement of Liabilities, Surplus and Other Funds**  
**For the Year Ended December 31, 2016**

**Liabilities:**

Losses	\$ 11,067,416
Reinsurance payable on paid losses and loss adjustment expenses	2,617,319
Loss adjustment expenses	2,347,080
Commissions payable, contingent commissions and other similar charges	169,338
Other expenses	766,654
Taxes, licenses and fees	2,158,266
Unearned premiums	13,286,527
Advance premium	680,917
Ceded reinsurance premiums payable	-8,481,609
Amounts withheld or retained by company for account of others	11,597,944
Remittances and items not allocated	363,452
Drafts outstanding	5,274,795
Payable to parent, subsidiaries and affiliates	6,515,659
Aggregate write-ins for liabilities	<u>50,771</u>
<b>Total Liabilities</b>	<b>\$ 48,414,529</b>

**Capital and Surplus**

Aggregate write-ins for special surplus funds	1,244,817
Common capital stock	1,500,000
Gross paid in and contributed surplus	32,447,957
Unassigned funds (surplus)	<u>11,654,855</u>
Surplus as regards policyholders	<u>46,847,630</u>
<b>TOTAL</b>	<b><u>\$ 95,262,159</u></b>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

**Alfa Insurance Corporation**  
**Statement of Income**  
**For the Years Ended December 31, 2016, 2015, 2014, 2013 and 2012**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<u>Underwriting Income</u>					
Premiums earned	\$ 36,000,918	\$ 33,906,282	\$ 33,335,380	\$ 32,188,201	\$ 31,342,285
<u>Deductions:</u>					
Losses incurred	23,650,149	21,721,956	21,313,163	19,111,444	18,692,183
Loss adjustment expenses incurred	1,876,635	2,183,152	2,059,987	2,015,249	1,925,148
Other underwriting expenses incurred	10,548,532	9,986,829	10,196,633	9,983,558	8,768,063
Aggregate write-ins for underwriting deductions	<u>-1,877</u>	<u>-4,278</u>	<u>-4,073</u>	<u>-628</u>	<u>-81</u>
Total underwriting deductions	<u>\$ 36,073,439</u>	<u>\$ 33,887,660</u>	<u>\$ 33,565,711</u>	<u>\$ 31,109,623</u>	<u>\$ 29,385,313</u>
Net underwriting gain (loss)	<u>\$ -72,521</u>	<u>\$ 18,622</u>	<u>\$ 230,331</u>	<u>\$ 1,078,578</u>	<u>\$ 1,956,971</u>
<u>Investment Income</u>					
Net investment income earned	\$ 1,828,054	\$ 2,004,142	\$ 1,857,315	\$ 1,926,656	\$ 1,341,348
Net realized capital gains (losses)	<u>89,306</u>	<u>477,193</u>	<u>1,286,508</u>	<u>457,999</u>	<u>-393,767</u>
Net investment gain (loss)	<u>\$ 1,917,360</u>	<u>\$ 2,481,335</u>	<u>\$ 3,143,823</u>	<u>\$ 2,384,655</u>	<u>\$ 947,581</u>
<u>Other Income</u>					
Net gain (loss) from agents' or premium balances charged off	\$ -217,649	\$ -231,420	\$ -221,722	\$ -160,784	\$ -149,957
Finance and service charges not included in premiums	944,605	920,579	913,565	885,157	801,390
Aggregate write-ins for miscellaneous income	<u>6,612</u>	<u>-97,540</u>	<u>-1,027,815</u>	<u>-45,283</u>	<u>4,094</u>
Total other income	<u>\$ 733,568</u>	<u>\$ 591,619</u>	<u>\$ -335,972</u>	<u>\$ 679,090</u>	<u>\$ 655,527</u>
Net income before dividends and all other federal and foreign income taxes	\$ 2,578,408	\$ 3,091,576	\$ 2,577,521	\$ 4,142,324	\$ 3,560,079
Federal and foreign income taxes incurred	<u>284,765</u>	<u>805,493</u>	<u>9,580</u>	<u>758,607</u>	<u>-639,482</u>
NET INCOME	<u>\$ 2,293,643</u>	<u>\$ 2,286,083</u>	<u>\$ 2,567,941</u>	<u>\$ 3,383,717</u>	<u>\$ 4,199,561</u>
<u>Capital and Surplus Account</u>					
Surplus as regards policyholders, December 31 prior year	\$ 49,806,361	\$ 55,332,920	\$ 59,156,089	\$ 60,304,938	\$ 54,413,255
Net income	2,293,643	2,286,083	2,567,941	3,383,717	4,199,561
Change in net unrealized capital gains or (losses)	507,613	-405,090	-6,877	902,438	258,030
Change in net deferred income tax	-1,348,963	-512,903	617,019	1,206,704	-1,317,148
Change in nonadmitted assets	488,977	-1,394,648	-1,101,253	-641,707	2,751,239
Dividends to stockholders	-4,900,000	-5,500,000	-5,900,000	-6,000,000	-
Change in surplus as regards policyholders for the year	<u>\$ -2,958,731</u>	<u>\$ -5,526,558</u>	<u>\$ -3,823,170</u>	<u>\$ -1,148,848</u>	<u>\$ 5,891,682</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 46,847,630</u>	<u>\$ 49,806,361</u>	<u>\$ 55,332,920</u>	<u>\$ 59,156,089</u>	<u>\$ 60,304,938</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

## **NOTES TO FINANCIAL STATEMENTS**

### **Analysis of Changes to Surplus**

No adjustment was made to surplus as a result of the examination.

### **CONTINGENT LIABILITIES AND PENDING LITIGATION**

The review of contingent liabilities and pending litigation included an inspection of representations made by management to the Company's independent certified public accountants regarding the Company and its affiliates, a review of the report on litigation and claims made by Company's management, and a general review of the Company's records and files conducted during the course of the examination, including a review of claims. These reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

The Company has committed to invest \$1,244,817 in partnerships, which are investments in joint ventures, partnerships and limited liability companies under SSAP No. 48 – *Joint Ventures, Partnerships and Limited Liabilities Companies*. These funds are reported as special surplus.

Additionally, the Company has committed \$4,283,723 in Low Income Housing Tax Credit (LIHTC) limited partnerships accounted for under SSAP No. 93 - *Low Income Housing Tax Credit Property Investments*. As of December 31, 2016, the Company has unfunded investments in these LIHTC limited partnerships that are expected be settled totaling \$1,271,497. The required holding period for LIHTC investments is fifteen years, and the Company has ten, five and two years remaining in three funds.

### **SUBSEQUENT EVENTS**

A review of events subsequent to the December 31, 2016 examination date was completed. The review of subsequent events included an inspection of the general journal entries, minutes of meetings, interim financial statements and an inquiry of accounting matters. These reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

Subsequent to the exam date, the following changes in officers were noted:



### **Changes in Officers:**

- Julie Meadows Parish was appointed Vice President and Chief Accounting Officer.
- John Delane Hemmings was appointed Chief Financial Officer replacing Russell John Sinco.
- Mark Andrew Evans was appointed Senior Vice President – South Alabama Sales.
- Darrell Lee McNeal was appointed Senior Vice President, Georgia and Mississippi Sales.
- Stephen Goddard Rutledge, Executive Vice President of Operations and Treasurer, retired effective February 1, 2018.
  - William Thomas Coshatt, Jr., former Senior Vice President- P&C Underwriting, has been named as his replacement.
  - Elizabeth Vail Chancey, former Vice President- P&C Underwriting, has been named as Mr. Coshatt's replacement.
  - Rexton Carl Seabrook, former P&C Underwriting Manager, has been named as Ms. Chancey's replacement.
- Craig Miles Venable was appointed Senior Vice President – Chief Risk, Compliance and Privacy Officer.
- Carol Lynn Golsan, Senior Vice President- Marketing Services, retired effective February 1, 2018. No replacement has been named.
- Douglas Wade Simpson, Vice President Claims retired effective February 1, 2018.
- Rhonda Welch Sikes' title was changed to Director – Reporting.

### **COMPLIANCE WITH PREVIOUS RECOMMENDATIONS**

A review was conducted during the current examination with regard to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with prior examination recommendations.

### **IMPORTANT POINTS, COMMENTS AND RECOMMENDATIONS**

There were no important points, comments or recommendations reported.

## CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of this examination.

The customary insurance examination procedures, as recommended by the NAIC, have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, James Davis, Theo Goodin, MCM, Mark Jaster, CFE, Mary Packard, CPA, CFE, Mora Perkins-Taylor, MCM, Kristina Rhodes, Charles Turner, CISA, Kizzy Williams, Brent Sallay, FCAS, MAAA and Solomon Frazier, ACAS, MAAA, actuarial examiners, all representing the Alabama Department of Insurance participated in certain phases of this examination:

Respectfully submitted,

A handwritten signature in cursive script, reading "Rhonda B. Ball", is written over a horizontal line.

Rhonda B. Ball, CFE,  
Examiner-in-Charge  
State of Alabama Department of Insurance